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TAGS: [ECON](#) [PREL](#) [PGOV](#) [PINR](#) [CH](#) [ER](#)
SUBJECT: CHINESE COMMERCIAL ACTIVITIES IN ERITREA: GSE
RULES FRUSTRATE EVEN ITS CLOSEST PARTNER

REFTEL: 05 ASMARA 923

CLASSIFIED BY: AMB Scott H. DeLisi, for reasons
1.4 (b) and (d).

1.(C) Chinese influence in Eritrea may begin to erode as Chinese business operations in Eritrea, restricted by GSE financial policies, vote with their feet and scale back on large scale investments in Eritrea. On June 6, Sun Jiliang, Deputy Chief of Mission of the Embassy of the People's Republic of China, discussed with Poloff the general state of affairs for Chinese businesses in Eritrea. Sun shared the frustrations of the Chinese businesses at the strict GSE limitations on the export of foreign currency. For the businesses, the foreign exchange policies are eating away at the profitability of doing business in Eritrea. Some Chinese businesses have paid as high as a 20% tax or fee on currency conversion in order to remove hard currency from Eritrea. The GSE foreign exchange policies and the lack of infrastructure and basic inputs, such as electricity, water and gas, serve as disincentives for Chinese businesses to initiate operations in Eritrea.

12. (C) Another constraint for Chinese businesses here is that most of their projects are outside of Asmara where limited infrastructure and the lack of basic inputs make it tough to operate effectively and as profitably as they would like. In addition, the new GSE travel restrictions for all foreigners may affect efficiency as businesses must apply for permits one trip at a time. Upon the GSE's issuance of its new restrictions, Sun stated the Chinese Embassy notified all of the businesses. As of Jun 6, none had reported any difficulties, however, he did not know if any had requested permission to travel. He did not anticipate that the Chinese businesses would encounter difficulties in receiving approval. (Note: He was unconcerned by the GSE's new restrictions and seemingly dismissive. Rather, he affirmed the GSE's right to do whatever they wanted in this regard - a point we accept in regard to restricting foreign nationals generally but not diplomatic personnel End note.)

13. (C) According to Sun, approximately 10 Chinese owned businesses operate in Eritrea. The majority are

construction companies, two are telecommunications companies and there are a handful of physicians working in Eritrea. (REFTEL) None of these businesses function solely in the private market, rather they have contracts with the Government of Eritrea and with the People's Front for Democracy and Justice (PFDJ) - the government's political arm and the only political party in Eritrea. Nearly all of the projects are infrastructure related, such as upgrading phone service for Eritel and constructing roads, bridges, dams and wells, including several projects funded by World Bank.

14. (C) With seemingly better than access to high level government officials than enjoyed by other diplomatic missions there exists the widely held perception that China has special influence in Eritrea. That influence, however, may be largely restricted to commercial enterprises rather than political issues. The newly arrived British Ambassador, Nick Astbury, shared with Poloff parts of his initial call on the Chinese Ambassador, Shu Zhan during which Shu maintained that the Chinese had minimal political influence on the GSE. While they may have access to the President, Shu explained, this access is limited primarily to matters related to commercial and financial projects and little policy or ideology is discussed.

15. (C) Comment: The GSE sponsored English language newspaper frequently spotlights the GSE - PRC relationship, including on military cooperation and, with that as the backdrop, Post continues to explore the full extent of the Chinese - Eritrea bilateral relationship. Given President Isaias' personal ties to China (he received military training in the late 1960s), he maintains strongly positive feelings for the Chinese and an unfortunate attachment to a Maoist ideology that still seems to guide his views on governance. Substantively, however, the relationship may be less than it appears on the surface, at least in regard to military support which evidence suggests exists only a small scale.

16. (C) Comment con't: China does continue to be Eritrea's predominant commercial partner but, as noted, even that "special" relationship has not kept Chinese businesses, like others, from struggling under the burden of the GSE's onerous and restrictive financial requirements. The inability of Chinese businesses to repatriate their profits from Eritrea may result in fewer and fewer Chinese businesses entering the Eritrean market. Given the GSE's reliance on Chinese-managed infrastructure projects it will be of interest to see if the GSE readily accepts a gradual exodus of Chinese companies or will amend its rules or find a way to make exceptions for the Chinese. End Comment.

DeLisi